

**INSURANCE
COUNCIL
OF AUSTRALIA**





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COUNCIL**
OF AUSTRALIA

16th General Insurance Seminar
Coolum, November 10 2008

Key Policy Issues for the General Insurance Industry

Kerrie Kelly
Executive Director & CEO
Insurance Council of Australia



Insurance Council of Australia - Strategic Blueprints

- Contributing to Australia's Economic Strength
- Community Safety & Support
- Disaster Planning, Response & Recovery
- Environment & Climate Change
- Personal Injury Management & Compensation
- Industry Leadership



Policy Focus 2009

- Flood project
- Resilient Communities
- Obligation of self-insurance
- Benefits of insurance
- Insurance taxes
- Harmonisation of workers compensation

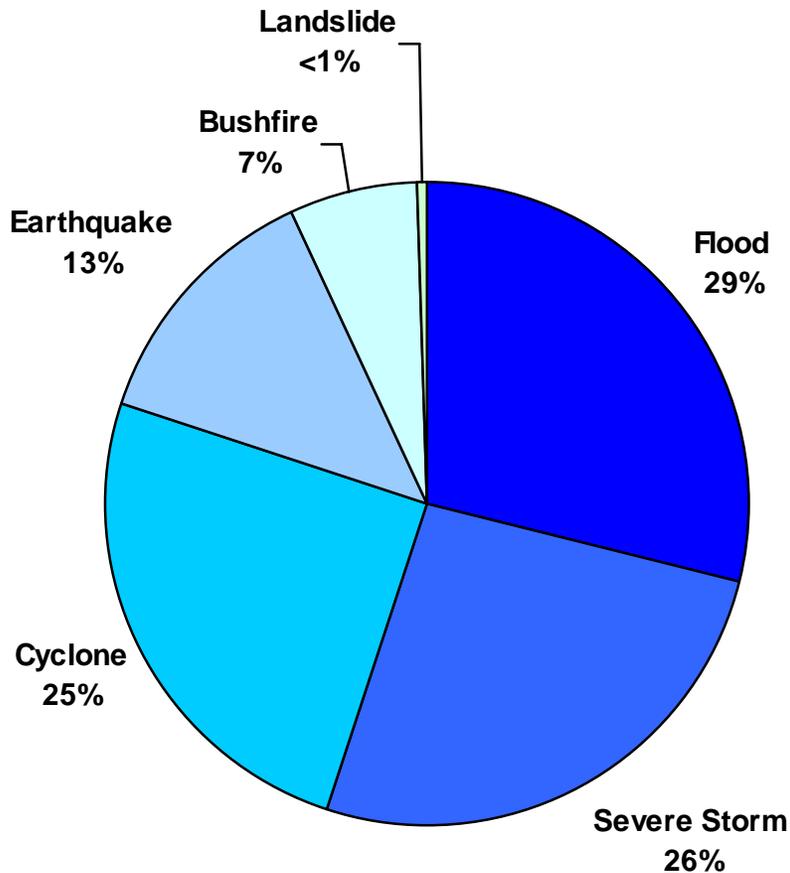


Flood Project 2009

- **National Flood Information Database**



Community & Business Natural Disaster Costs (1967-1999)



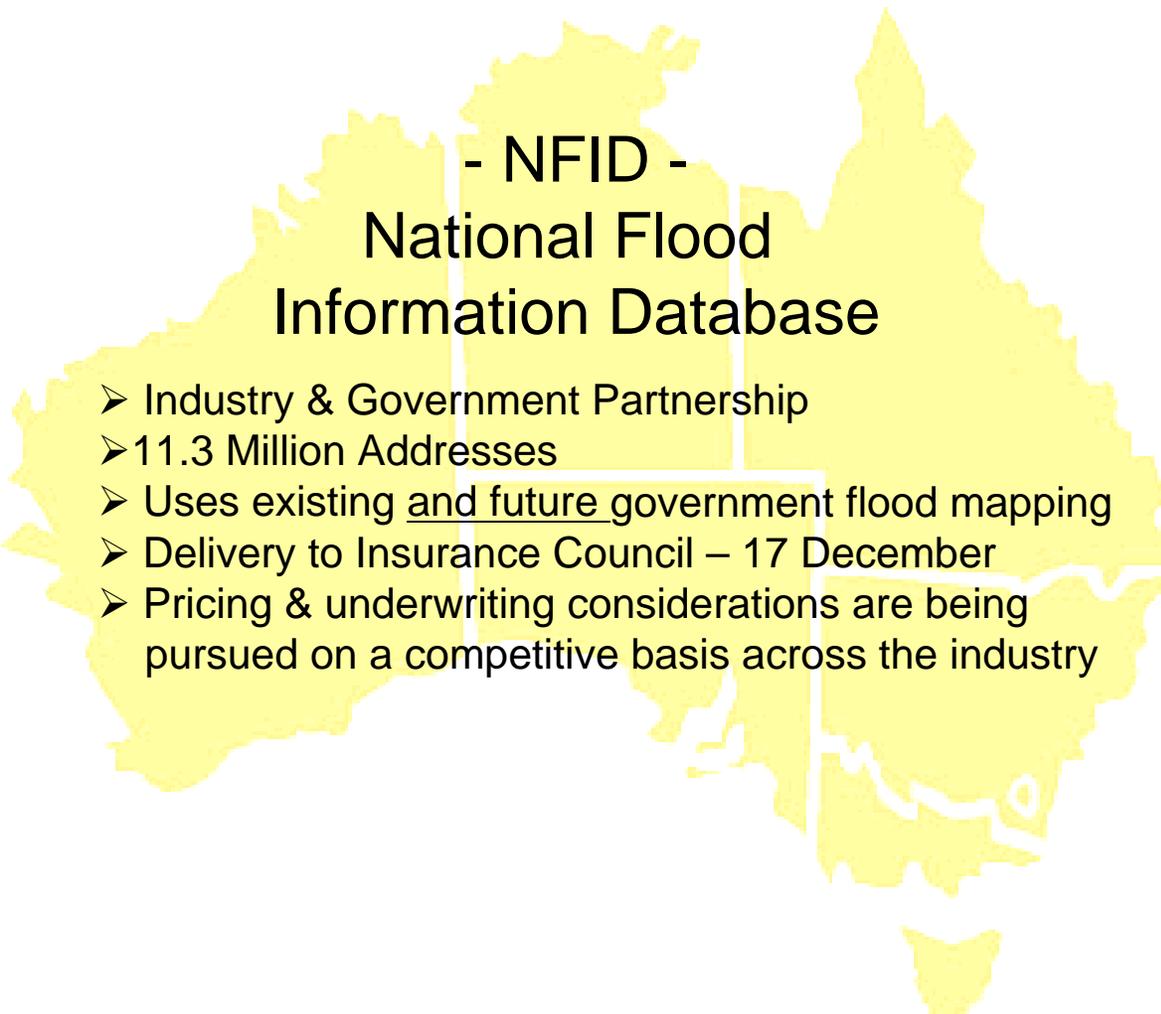
Average annual cost
of disasters over
last 40yrs

\$1.2 Billion

Cost of disasters
Over 07/08 financial
year

\$2.3 Billion





- NFID -
National Flood
Information Database

- Industry & Government Partnership
- 11.3 Million Addresses
- Uses existing and future government flood mapping
- Delivery to Insurance Council – 17 December
- Pricing & underwriting considerations are being pursued on a competitive basis across the industry

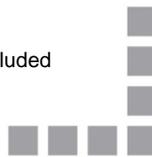
Flood Data for each address

- Ground level elevation in metres (AHD)
- Flood depth for 20 year return period
- Flood depth for 50 year return period
- Flood depth for 100 year return period
- Flood depth for extreme return period
- 0m (Ground level) depth as a return period
- 1m depth as a return period
- 2m depth as a return period

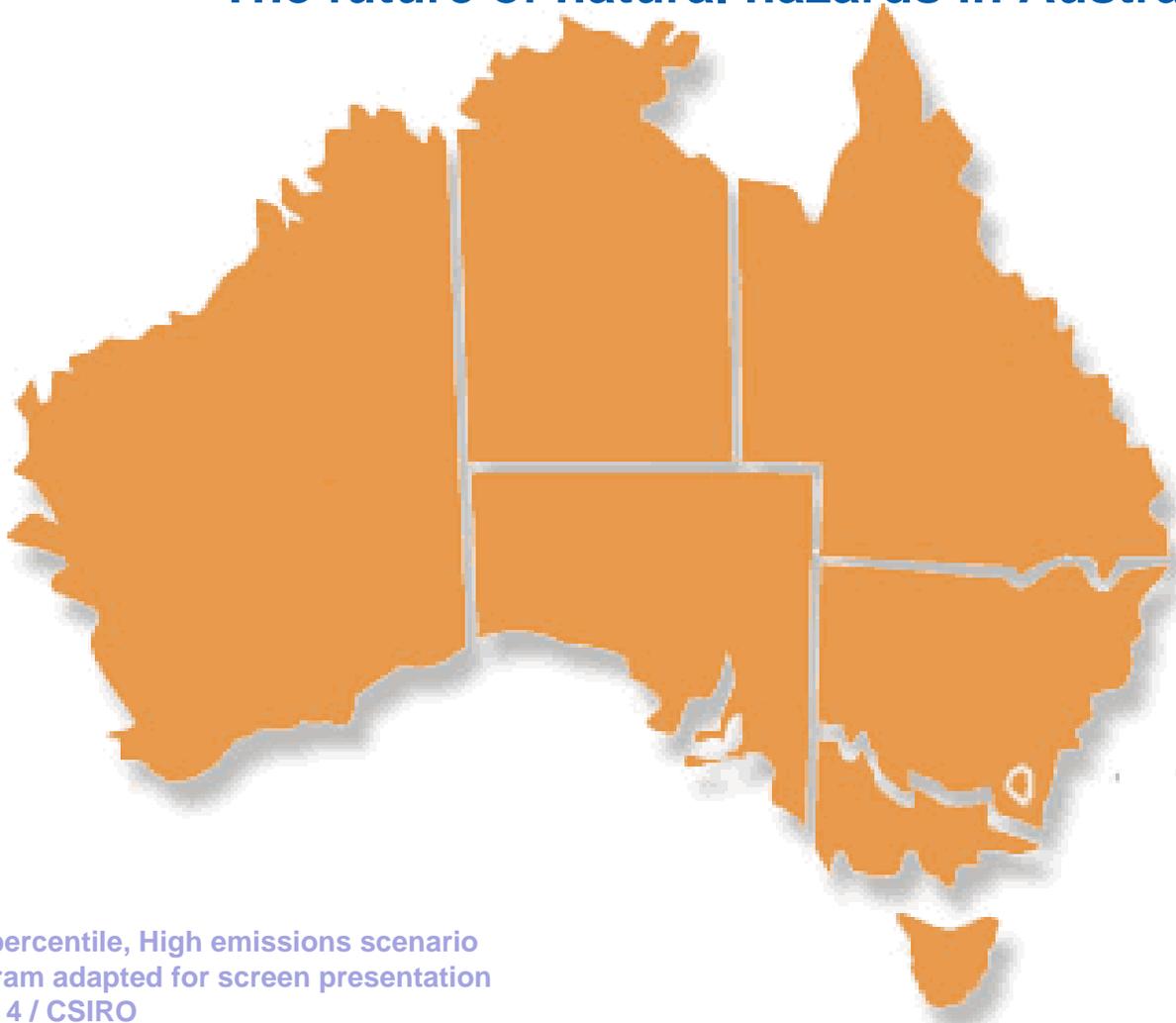
Address information is defined by:

- G-NAF identifier (GNAF_PID)
- G_NAF database date and reference
 - Property address fields:
 - Flat Number (FLAT_NUM)
 - Street Number (ST_NUMBER)
 - Street Number Suffix (ST_NUM_SUF)
 - Street Name (ST_NAME)
 - Street Type (ST_TYPE)
 - Street Suffix (ST_SUFFIX)
 - Postcode (POSTCODE)
 - Suburb (LOCALITY)
 - State (STATE)

Metadata to accompany a given set of deliverables for a given location. For each watercourse generating a flood event:

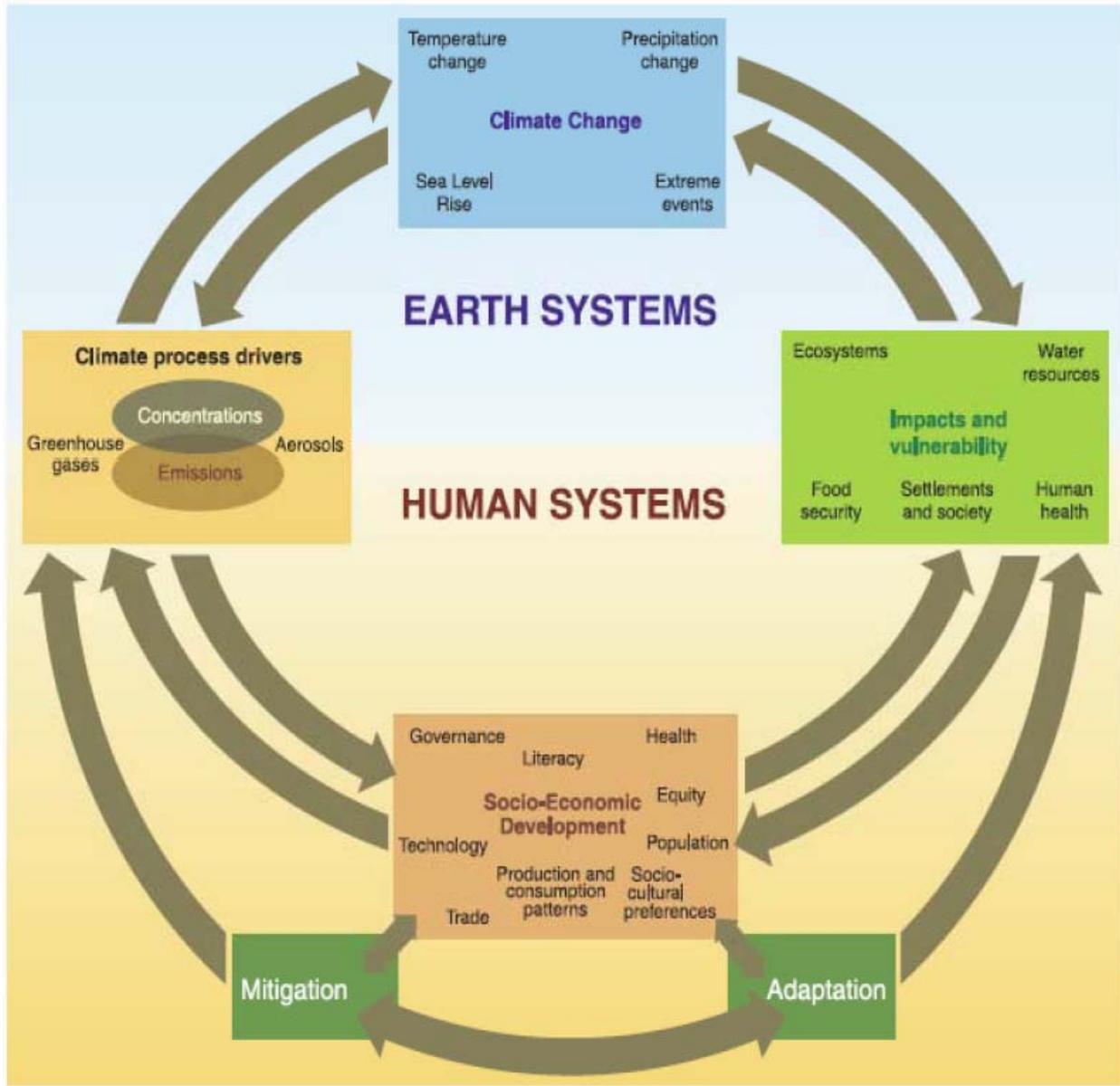
- Flood study
 - Source of flood study
 - Date of study
 - Resolution of DEM
 - Source of DEM
 - Date of DEM
 - Whether a flood defence (levee) is included
 - Confidence level
- 

The future of natural hazards in Australia by 2070



- Temp – Av +2c for 80% population.
- Bushfire – 100% to 300% increase in extreme fire danger days.
- Cyclone – Generally less frequent Generation & Decay moves south. More CAT5 Cyclones.
- Rainfall – Generally drier with more intense peak rainfall events. 20% larger thunderstorms





CSIRO: Schematic framework of anthropogenic drivers, impacts & responses

Infrastructure Impacts

- Health
- Power
- Stormwater
- Water Management
- Roads & Rail
- Business Continuity
- New technologies
- New risks

Land-Use Impacts

- Urban Interface Risks
- Greater Peak Flooding
- Coastal Encroachment
- Loss of arable land

Structural Impacts

- Unprepared Structures
- Higher Peak Events

Service Impacts

- Greater Demand on Emergency Services

Personal Impacts

- Awareness of New Risks
- Financial Risk Mitigation
- Personal Readiness



Resilient Communities

- Building Codes a key public policy issue to ensure that safety of the building from an insurance perspective is maintained.
 - Work with COAG ongoing.
 - Preliminary submission made to the Federal Government's review of the Intergovernmental Agreement that defines the operation of the Australian Building Codes Board.
- Disaster mitigation key issue openly being discussed (such as recent announcement by the Federal Government for applications to the National Disaster Mitigation Program).



Six Key Actions of Resilience

1. Community Understanding of Weather Related Risks
2. Risk Appropriate Land Use Planning & Zoning
3. Risk Appropriate Mitigation Measures
4. Risk Appropriate Property protection Standards
5. Financial Risk Mitigation in the Community
6. Community Emergency & Recovery Planning



	GENERAL INSURANCE INDUSTRY ACTIONS	ACTION BY GOVERNMENTS	ACTIONS BY INDIVIDUALS & BUSINESSES
1 COMMUNITY UNDERSTANDING OF WEATHER RELATED RISKS	<ul style="list-style-type: none"> ▶ Provide industry advice and research to governments and the community regarding the probabilities and costs of extreme weather events. 	<ul style="list-style-type: none"> ▶ Develop a concise public education campaign through an appropriate authority regarding specific climate change impacts and changes to extreme weather events for communities on a regional basis. ▶ Implement mandatory risk information disclosure and acceptance requirements as part of all State based property transfer regulations for all extant and predicted risks relevant to a property. 	<ul style="list-style-type: none"> ▶ Use of the presented education information to make risk appropriate decisions regarding assets and operations as part of an annual risk assessment & management cycle.
2 RISK APPROPRIATE LAND USE PLANNING & ZONING	<ul style="list-style-type: none"> ▶ Provide industry advice and guidance to governments and the community regarding the risk implications of particular developments and projects under consideration with regard to extreme weather events. 	<ul style="list-style-type: none"> ▶ Implement risk appropriate land use planning legislation harmonised across all states to prevent inappropriate development on land subject to inundation, specifically: <ul style="list-style-type: none"> - no residential or commercial development should occur on land currently subject or predicted to be subject to a 1 in 50yr return period of inland flooding unless mitigation works have been carried out to maintain a 1 in 100yr risk exposure limit. - no residential or commercial development should occur on land currently subject to or predicted to become subject to a 1 in 50yr return period for storm surge unless mitigation works have been carried out to maintain a 1 in 100yr risk exposure limit. ▶ Implement a southerly expansion of cyclone and wind storm related building codes to counter the predicted southerly expansion of severe cyclones. ▶ Implement legislation harmonised across all states requiring mandatory disclosure of all known & predicted risk data by state & local governments to property purchasers during property conveyance and title search processes. 	<ul style="list-style-type: none"> ▶ Critical assessment of each purchase of new property and the future risks to current property, then implement appropriate adaptive behaviour to lower or avoid the risks.
3 RISK APPROPRIATE MITIGATION MEASURES	<ul style="list-style-type: none"> ▶ Provide industry advice and research to governments & the community regarding the observed benefits of improved mitigation, e.g., storm water drainage and flood levies. ▶ Provide industry data and event observations regarding failed or poorly performing mitigation infrastructure that has caused damage to the community. 	<ul style="list-style-type: none"> ▶ Review current funding and approval mechanisms for Disaster Mitigation works, with a view to expansion of the fund to allow for more rapid implementation of mitigation works in high priority areas. ▶ Expansion of the current National Disaster Mitigation Program to include upgrades and repairs to critical stormwater and drainage systems. 	<ul style="list-style-type: none"> ▶ Implement appropriate mitigation mechanisms on privately owned property in accordance with best practice recommendations from Standards Australia and/or Local Development Guidelines.
4 RISK APPROPRIATE PROPERTY PROTECTION STANDARDS	<ul style="list-style-type: none"> ▶ Provide best practice guidance to property owners and developers regarding risk adaptation and mitigation steps for property facing extreme weather events & climate change impacts. ▶ Analyse and deliver pricing incentives for lower risk development involving risk improved property. 	<ul style="list-style-type: none"> ▶ Expansion of the Building Code of Australia to incorporate property protection as a fundamental basis for consideration in building design and construction. 	<ul style="list-style-type: none"> ▶ Property owners or developers - undertake a critical analysis of existing property protection measures available and implement measures that are appropriate to the risks predicted over the lifespan of the property.
5 FINANCIAL RISK MITIGATION IN THE COMMUNITY	<ul style="list-style-type: none"> ▶ Develop and implement public education and financial literacy programs regarding personal financial risk mitigation. ▶ Undertake ongoing product development to cater to non-insured demographics parallel to any increasing demand. ▶ Continue insurance product innovation addressing extreme weather risks and rewarding sustainable or 'greener' behaviour that contributes to climate change reversal. ▶ Continue to perform catastrophe modelling and development of capitalisation options to maintain a healthy and stable general insurance market. ▶ Continue to participate in global management of the insurance market cycle to facilitate availability of competitive & appropriate levels of general insurance in Australia. 	<ul style="list-style-type: none"> ▶ Removal of taxes on all general insurance products, thereby encouraging greater adoption of personal financial risk mitigation. 	<ul style="list-style-type: none"> ▶ Individuals & businesses in the community implement Business Continuity Planning that incorporates extreme weather initiated damage on essential assets as well as impacts on external resources or markets critically relied upon. ▶ Individuals & businesses in the community undertake practical assessment of the risks to assets and seek appropriate cover for those risks.
6 COMMUNITY EMERGENCY & RECOVERY PLANNING	<ul style="list-style-type: none"> ▶ Ensure that the industry's catastrophe coordination arrangements keep pace with community needs and advancements in State recovery capabilities as climate change forces advancements in emergency response. 	<ul style="list-style-type: none"> ▶ Continuous best practice review and capability development by Australian emergency response & recovery agencies, as the nature of extreme weather changes and new emergency response and recovery needs emerge. 	<ul style="list-style-type: none"> ▶ Individuals & Businesses undertake appropriate disaster preparation and recovery planning before any extreme weather event occurs.

IMPROVING COMMUNITY RESILIENCE TO EXTREME WEATHER EVENTS

	GENERAL INSURANCE INDUSTRY ACTIONS	ACTION BY GOVERNMENTS	ACTIONS BY INDIVIDUALS & BUSINESSES
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1
COMMUNITY UNDERSTANDING OF WEATHER RELATED RISKS

► Provide industry advice and research to governments and the community regarding the probabilities and costs of extreme weather events.

► Develop a concise public education campaign through an appropriate authority regarding specific climate change impacts and weather events for communities on a regional basis.
► Implement mandatory risk information disclosure and requirements as part of all State based property transfer and predicted risks relevant to a property.

► Use of the presented education information to make risk decisions as part of an

Continue to work with State and Local governments on the need for appropriate land planning processes and mitigation works to enable insurance to be more widely available in high-risk areas.

2
RISK APPROPRIATE LAND USE PLANNING & ZONING

► Provide industry advice and guidance to governments and the community regarding the risk implications of particular developments and projects under consideration with regard to extreme weather events.

► Implement risk appropriate land use planning legislation all states to prevent inappropriate development on land specifically:
- no residential or commercial development should occur on land predicted to be subject to a 1 in 50yr return period of inland flood have been carried out to maintain a 1 in 100yr risk exposure limit
- no residential or commercial development should occur on land predicted to become subject to a 1 in 50yr return period for storm works have been carried out to maintain a 1 in 100yr risk exposure
► Implement a southerly expansion of cyclone and wind codes to counter the predicted southerly expansion of severe cyclones.
► Implement legislation harmonised across all states requiring mandatory disclosure of all known & predicted risk data by state & local governments to property purchasers during property conveyance and title search processes.

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RISK APPROPRIATE MITIGATION MEASURES

► Provide industry advice and research to governments & the community regarding the observed benefits of improved mitigation, e.g., storm water drainage and flood levies.
► Provide industry data and event observations regarding failed or poorly performing mitigation infrastructure that has caused damage to the community.

► Review current funding and approval mechanisms for works, with a view to expansion of the fund to allow for more implementation of mitigation works in high priority areas.
► Expansion of the current National Disaster Mitigation Fund to fund upgrades and repairs to critical stormwater and drainage

on privately recommendations present Guidelines.

Development by insurance industry of the National Flood Information Database showing historical property by property flood risks to enable greater underwriting of those risks.

4
RISK APPROPRIATE PROPERTY PROTECTION STANDARDS

► Provide best practice guidance to property owners and developers regarding risk adaptation and mitigation steps for property facing extreme weather events & climate change impacts.
► Analyse and deliver pricing incentives for lower risk development involving risk improved property.

► Expansion of the Building Code of Australia to incorporate as a fundamental basis for consideration in building design

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5
FINANCIAL RISK MITIGATION IN THE COMMUNITY

► Develop and implement public education and financial literacy programs regarding personal financial risk mitigation
► Undertake ongoing product development to cater to non-insured demographics parallel to any increasing demand.
► Continue insurance product innovation addressing extreme weather risks and rewarding sustainable or 'greener' behaviour that contributes to climate change reversal.
► Continue to perform catastrophe modelling and development of capitalisation options to maintain a healthy and stable general insurance market.
► Continue to participate in global management of the insurance market cycle to facilitate availability of competitive & appropriate levels of general insurance in Australia.

► Removal of taxes on all general insurance products, thereby encouraging greater adoption of personal financial risk mitigation.

► Individuals & businesses in the community implement Business Continuity Planning that incorporates extreme weather initiated damage on essential assets as well as impacts on external

Single point of industry coordination for natural disasters between government and community groups, facilitating communications, resources and removal of recovery obstacles.

6
COMMUNITY EMERGENCY & RECOVERY PLANNING

► Ensure that the industry's catastrophe coordination arrangements keep pace with community needs and advancements in State recovery capabilities as climate change forces advancements in emergency response.

► Continuous best practice review and capability development of emergency response & recovery agencies, as the nature changes and new emergency response and recovery need

te disaster extreme weather

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► Use of the presented education information to make risk appropriate decisions regarding assets and operations as part of an annual risk assessment & management cycle.

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RISK APPROPRIATE LAND USE PLANNING & ZONING

► Provide industry advice and guidance to governments and the community regarding the risk implications of particular developments and projects under consideration with regard to extreme weather events.

► Implement risk appropriate land use planning legislation harmonised across all states to prevent inappropriate development on land subject to inundation, specifically:
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► Implement legislation harmonised across all states requiring mandatory disclosure of all known & predicted risk data by state & local governments to property purchasers during property conveyance and title search processes.

► Cr future beha

Map predicted impacts on the built environment and ensure that property / investments are adequately protected through robust design policy and regulation, starting with appropriate site selection and land-use consideration.

COAG to agree on consistent national building codes that properly reflect the changing environment and the effect on the built environment as well as the value of the property to the individual and the community.

3
RISK APPROPRIATE MITIGATION MEASURES

► Provide industry advice and guidance to governments and the community regarding the risk implications of particular developments and projects under consideration with regard to extreme weather events.

► Review current funding and approval mechanisms for Disaster Mitigation works, with a view to expansion of the fund to allow for more rapid implementation of mitigation works in high priority areas.
► Expansion of the current National Disaster Mitigation Program to include upgrades and repairs to critical stormwater and drainage systems.

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RISK APPROPRIATE PROPERTY PROTECTION STANDARDS

► Provide industry advice and guidance to governments and the community regarding the risk implications of particular developments and projects under consideration with regard to extreme weather events.

► Expansion of the Building Code of Australia to incorporate property protection as a fundamental basis for consideration in building design and construction.

► Property owners or developers - undertake a critical analysis of existing property protection measures available and implement measures that are appropriate to the risks predicted over the lifespan of the property.

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FINANCIAL RISK MITIGATION IN THE COMMUNITY

► Develop and implement public education and financial literacy programs regarding personal financial risk mitigation.
► Undertake ongoing product development to cater to non-insured demographics parallel to any increasing demand.
► Continue insurance product innovation addressing extreme weather risks and rewarding sustainable or 'greener' behaviour that contributes to climate change reversal.
► Continue to perform catastrophe modelling and development of capitalisation options to maintain a healthy and stable general insurance market.
► Continue to participate in global management of the insurance market cycle to facilitate availability of competitive & appropriate levels of general insurance in Australia.

► Removal of taxes on all general insurance products, thereby encouraging greater adoption of personal financial risk mitigation.

► Individuals & businesses in the community implement Business Continuity Planning that incorporates extreme weather initiated damage on essential assets as well as impacts on external resources or markets critically relied upon.
► Individuals & businesses in the community undertake practical assess those r

Removal of stamp duties by the States and Territories on insurance products to directly address the incidence of non-insurance.

6
COMMUNITY EMERGENCY & RECOVERY PLANNING

► Ensure that the industry's catastrophe coordination arrangements keep pace with community needs and advancements in State recovery capabilities as climate change forces advancements in emergency response.

► Continuous best practice review and capability development by Australian emergency response & recovery agencies, as the nature of extreme weather changes and new emergency response and recovery needs emerge.

► Indi prepar event c

IMPROVING COMMUNITY RESILIENCE TO EXTREME WEATHER EVENTS

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<p>2</p> <p>RISK APPROPRIATE LAND USE PLANNING & ZONING</p>	<ul style="list-style-type: none"> ▶ Provide community and project events. 	<ul style="list-style-type: none"> ▶ Implement risk appropriate land use planning legislation harmonised across all states to prevent inappropriate development on land subject to inundation, specifically: <ul style="list-style-type: none"> - no residential or commercial development should occur on land currently subject or predicted to be subject to a 1 in 50yr return period of inland flooding unless mitigation works have been carried out to maintain a 1 in 100yr risk exposure limit. - no residential or commercial development should occur on land currently subject to or predicted to become subject to a 1 in 50yr return period for storm surge unless mitigation works have been carried out to maintain a 1 in 100yr risk exposure limit. ▶ Implement a southerly expansion of cyclone and wind storm related building codes to counter the predicted southerly expansion of severe cyclones. ▶ Implement legislation harmonised across all states requiring mandatory disclosure of all known & predicted risk data by state & local governments to property purchasers during property conveyance and title search processes. 	<ul style="list-style-type: none"> ▶ Critical assessment of each purchase of new property and the future risks to current property, then implement appropriate adaptive behaviour to lower or avoid the risks.
<p>3</p> <p>RISK APPROPRIATE MITIGATION MEASURES</p>	<ul style="list-style-type: none"> ▶ Provide community storm water ▶ Provide poorly pe the comm 	<ul style="list-style-type: none"> ▶ Review current funding and approval mechanisms for Disaster Mitigation works, with a view to expansion of the fund to allow for more rapid implementation of mitigation works in high priority areas. ▶ Expansion of the current National Disaster Mitigation Program to include upgrades and repairs to critical stormwater and drainage systems. 	<ul style="list-style-type: none"> ▶ Implement appropriate mitigation mechanisms on privately owned property in accordance with best practice recommendations from Standards Australia and/or Local Development Guidelines.
<p>4</p> <p>RISK APPROPRIATE PROPERTY PROTECTION STANDARDS</p>	<ul style="list-style-type: none"> ▶ Provide regarding extreme v ▶ Analyse and deliver pricing incentives for lower risk development involving risk improved property. 	<ul style="list-style-type: none"> ▶ Expansion of the Building Code of Australia to incorporate property protection as a fundamental basis for consideration in building design and construction. 	<ul style="list-style-type: none"> ▶ Property owners or developers - undertake a critical analysis of existing property protection measures available and implement measures that are appropriate to the risks predicted over the lifespan of the property.
<p>5</p> <p>FINANCIAL RISK MITIGATION IN THE COMMUNITY</p>	<ul style="list-style-type: none"> ▶ Develop and implement public education and financial literacy programs regarding personal financial risk mitigation. ▶ Undertake ongoing product development to cater to non-insured demographic ▶ Continue to address risks and to climate ▶ Continue to capitalise on insurance ▶ Continue to market cycle of general 	<ul style="list-style-type: none"> ▶ Removal of taxes on all general insurance products, thereby encouraging greater adoption of personal financial risk mitigation. 	<ul style="list-style-type: none"> ▶ Individuals & businesses in the community implement Business Continuity Planning that incorporates extreme weather initiated damage on essential assets as well as impacts on external resources or markets critically relied upon. ▶ Individuals & businesses in the community undertake practical assessment of the risks to assets and seek appropriate cover for those risks.
<p>6</p> <p>COMMUNITY EMERGENCY & RECOVERY PLANNING</p>	<ul style="list-style-type: none"> ▶ Ensure keep pace capabilities response 	<ul style="list-style-type: none"> ▶ Continuous best practice review and capability development by Australian emergency response & recovery agencies, as the nature of extreme weather changes and new emergency response and recovery needs emerge. 	<ul style="list-style-type: none"> ▶ Individuals & Businesses undertake appropriate disaster preparation and recovery planning before any extreme weather event occurs.

Access government risk information regarding the local area and property location. Ensure that risks are compatible with use of the asset and investment being made.

Update existing infrastructure to meet new risks or future predictions of extreme weather.

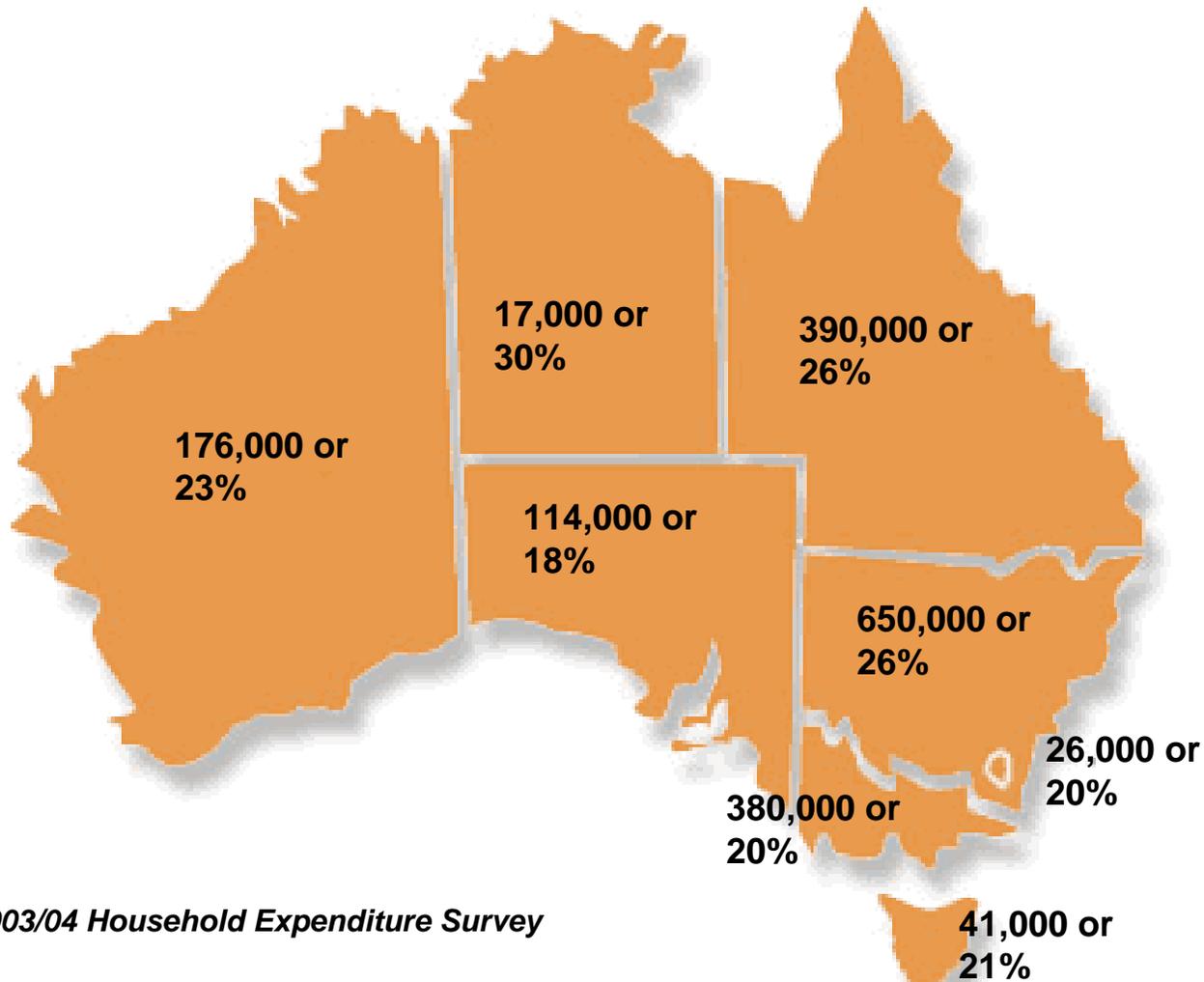
Ensure that business operations can be recovered and losses can be mitigated. Effort should be proportional to risks and consequences.

Insurance Taxes

- 18 October 2008 - NSW Independent Pricing & Regulatory Tribunal *Final Report – Review of (NSW) State Taxation* recommended:
 1. *In the short term, the standard rate of stamp duty for general insurance (Type A) be reduced from 9 per cent to 5 per cent*
 2. *In the short term, the stamp duty exemption for third party motor vehicle personal injury insurance should be abolished and,*
 3. *In the short term, the statutory contributions by insurance companies to fund fire services should be replaced by an equivalent, transparent property based levy collected by local councils. The levy should be separately identified on rates notices, be phased in over time and be excluded from the municipal rates cap.*
- Federal Budget Submission to “Henry Review” and “Ergas Review”



Zero Expenditure by Households on House & Contents Insurance



Source: ABS, 2003/04 Household Expenditure Survey



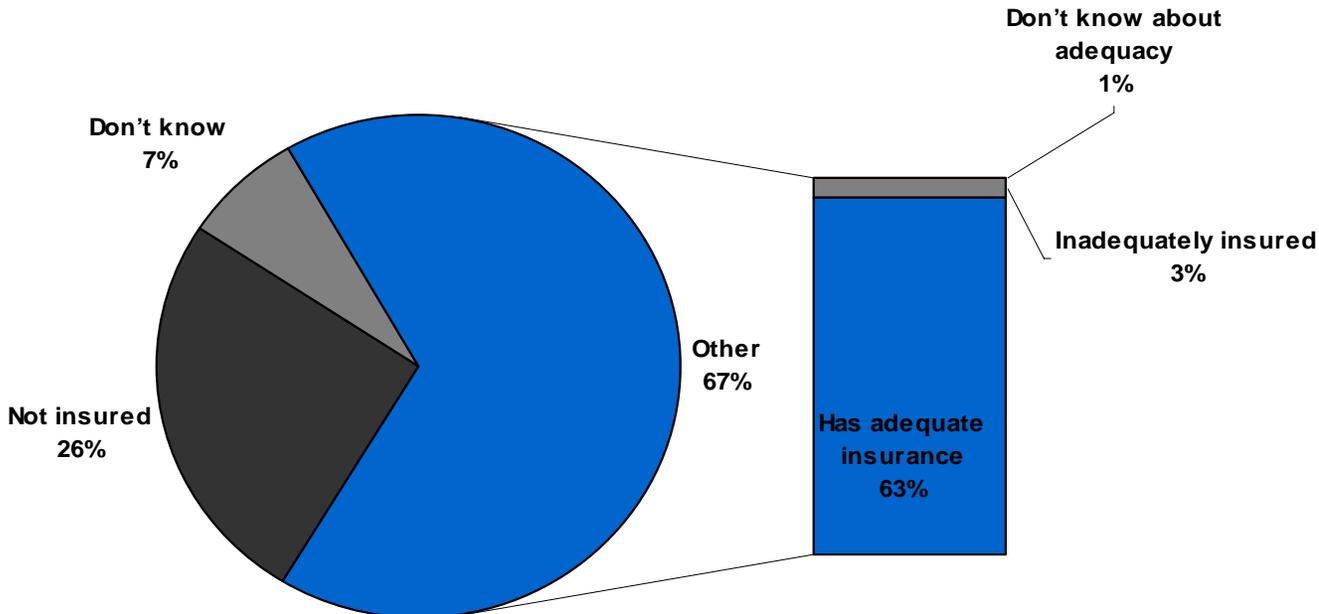
Obligation of self-insurance

- **Non-insurance:** Additional work on non-insurance used to support policy discussion around the need for community resilience, flood project, insurance tax reform, consumer education (financial literacy).



Non-Insurance: Small and Medium Sized Enterprise (SME's) Sector

- 26% of SME's do not purchase General Insurance for their business
- 40% of Sole Traders do not purchase General Insurance for their business



Value of Insurance - Insurance Literacy

- Seeking to address non insurance in the Australian community through the adoption of a insurance literacy framework, through:
 - An improved understanding and comprehension of general insurance provision through strengthened financial literacy.
 - A regulatory and policy framework that supports and encourages private general insurance.
 - Support from government and regulators for sustainable product and supply side responses that ensure general insurance products are available to meet diverse consumer need.
- Insurance Council has developed with The Smith Family a general insurance financial literacy “module” that compliments existing financial literacy programmes delivered by the Smith Family across Australia.
- Currently being piloted in ACT, VIC, NSW and QLD. Assessment to be completed in January 2009.



Policy Focus 2009

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- Obligation of self-insurance
- Benefits of insurance
- Insurance taxes
- Harmonisation of workers compensation

